

Message Text

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ACTION EB-07

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SUBJECT: TURKISH ATTITUDE TOWARD FOREIGN INVESTMENT: PRIME MINISTER
DEMIREL'S COMMENTS

BEGIN SUMMARY. IN A SPECIAL INTERVIEW IN MILLIYET, MODERATE
MAJOR TURKISH DAILY, AUG. 24, PRIME MINISTER DEMIREL MADE
SURPRISINGLY FRANK ADMISSION THAT LOW LEVEL FO FOREIGN INVESTMENT
IN TURKEY IS DUE TO FAILURE TO PROVIDE THE SECURITY NECESSARY TO
ATTRACT INVESTORS. DEMIREL REVIEWED PRO'S AND CON'S
OF PRIVATE FOREIGN INVESTMENT AND CAUTIOUSLY CONCLUDED THAT IN
ORDER TO INTRODUCE ADVANCED TECHNOLOGY, MANAGEMENT AND MAR-
KETING KNOW-HOW, AND NECESSARY EXPORT CAPACITY, TURKEY HAD TO
OVERCOME NATIONALISTIC AND BUREAUCRATIC OBSTACLES TO ITS ENTRY.
END SUMMARY.

1. IN RECENT PUBLISHED INTERVIEW WITH MILLIYET EDITOR ABDI
IPEKCI, PRIME MINISTER DEMIREL (JUSTICE PARTY) ADMITTED THAT
"TURKEY HAS UNFORTUNATELY BEEN UNSUCCESSFUL IN ATTRACTING
SUFFICIENT FOREIGN CAPITAL". FOREIGN INVESTMENT IN TURKEY
TODAY DOES NOT EXCEED \$500 MILLION, HE NOTED, AND \$350 MILLION
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OF THIS IS IN PETROLEUM-RELATED ACTIVITIES. THIS AMOUN IS

CLEARLY INSUFFICIENT WHEN ONE REALIZES THAT FOREIGN-EXCHANGE CONTENT OF NEW ALIAGA PETROL-CHEMICAL COMPLEX ALONE APPROACHES \$500 MILLION.

2. IN EXPLANATION, DEMIREL SAID THAT TURKEY HAS A "CAPITULATION PHOBIA". (DURING OTTOMAN RULE CAPITULATIONS TO FOREIGN POWERS PUT COMMERCIAL LIFE AND EXPLOITATION OF TURKISH RESOURCES INTO HANDS OF FOREIGNERS.) FOREIGN MONEY, HE SAID, WILL NOT COME INTO TURKEY UNDER PRESENT ATMOSPHERE WHEN "NATIONALIZATION SLOGANS AND RUMORS ABOUT CHANGING THE FORM OF PRODUCTION ARE RIFE EVERY DAY". FOREIGN CAPITAL HAS NOT FOUND IN TURKEY THE SECURITY IT REQUIRES.

3. PRIME MINISTER CHARACTERIZED LAW 6224 (FOREIGN INVESTMENT ENCOURAGEMENT LAW) AS GOOD LEGISLATION. THERE WERE, HOWEVER, TOO MANY "BUREAUCRATIC BARRIERS" TO ITS IMPLEMENTATION. THEY HAVE TO BE REDUCED, BUT WHETHER THEY CAN BE REDUCED TODAY IS ANOTHER MATTER, HE SAID. IN THIS CONNECTION, HE ACKNOWLEDGED THAT CERTAIN EXPANSION PROJECTS IN THE PRIVATE SECTOR WERE STILL CONTROVERSIAL WITHIN HIS COALITION ADMINISTRATION. THESE INCLUDED EXPANSION OF A TRACTOR FACTORY (FIAT) AND TWO TIRE COMPANIES. (ACTUALLY THREE--UNIROYAL, GOODYEAR, AND PIRELLI--HAVE EXPANSION PROPOSALS PENDING.) DEMIREL CLAIMED GOVERNMENT WAS TRYING TO FIND FAIR RESOLUTION OF THIS ISSUE.

4. FOREIGN INVESTMENT, DEMIREL SAID, MUST BE SEEN IN TERMS OF A PRAGMATIC CALCULATION: "WHAT DOES IT BRING IN AND WHAT DOES IT TAKE OUT?" SECOND, ONE MUST CONSIDER WHETHER IT CAN BE USED TOMORROW BY FOREIGNERS AS A TOOL FOR POLITICAL PRESSURE. TURKEY HAS REACHED A POINT IN HER INDUSTRIALIZATION PROGRAM WHERE THERE CAN BE NO PAUSE FOR ARGUMENT ON IDEALOGY OF DEVELOPMENT. TURKEY HAS TO SET UP COMPETITIVE INDUSTRIES AND INCREASE AGRICULTURAL AND INDUSTRIAL PRODUCTION. IT MUST FIND NEW DOMESTIC AND EXTERNAL CAPITAL RESOURCES. DEMIREL CONCLUDED THAT TURKEY THEREFORE COULD WELL BENEFIT FROM FOREIGN CAPITAL WHICH IS NOT A MEANS OF POLITICAL PRESSURE AND WHICH BRINGS IN TECHNOLOGY, MANAGEMENT EXPERTISE, AND MARKETING KNOW-HOW.

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5. COMMENT. CONTROVERSY OVER PRIVATE FOREIGN INVESTMENT IN TURKEY IS NOT NEW. ECONOMIC DEVELOPMENT DURING 1930'S AND 1940'S TOOK PLACE IN AN ECONOMY WHERE ATATURK-ENDORSED STATE ECONOMY ENTERPRISES PLAYED AN IMPORTANT ROLE. VAST MAJORITY OF WHAT FOREIGN CAPITAL THERE IS IN TURKEY ENTERED 1952-1969 UNDER CONSIDERABLE CRITICISM FROM LEFT. ISSUE OF OTTOMAN CAPITULATIONS REMAINS SENSITIVE AND IS USED BY LEFT AGAINST FOREIGN BORROWINGS BY GOT AND AGAINST FOREIGN PRIVATE INVEST-

MENT. MORE RECENTLY, THE PRO-ISLAMIC NATIONAL SALVATION PARTY, IN THE PERSON OF ITS LEADER, DEPUTY PRIME MINISTER ERBAKAN, ALSO HAS APPEARED TO SEE PRIVATE FOREIGN CAPITAL AS THREAT TO ITS DREAMS OF DEVELOPING TURKEY INTO AN AUTARKIS INDUSTRIAL POWER WITH CLOSE TIES TO ISLAMIC WORLD.

6. CONSEQUENTLY, DEMIREL'S CRITICISM OF "CAPITULATION PHOBIA" AND "BUREAUCRATIC BARRIERS" AGAINST PRIVATE FOREIGN INVESTMENT IS ADDRESSED NOT ONLY TO TURKISH ETATIST BUREAUCRATS AND LEFTIST PRESS, BUT ALSO TO HIS DEPUTY PRIME MINISTER ERBAKAN AND THE LATTER'S SUPPORTERS WHOM HE HAS PLACED IN BUREAUCRACY.

7. IN GENERAL, EXPANSION OF PRIVATE FOREIGN INVESTMENT IN TURKEY IS NOT A POPULAR ISSUE. DEMIREL'S ADMISSION THAT ATMOSPHERE IN TURKEY ITSELF IS PRIMARILY RESPONSIBLE FOR LOW LEVEL OF FOREIGN INTEREST IN INVESTING HERE AND HIS CALL FOR REEVALUATION OF NEED FOR MORE FOREIGN INVESTMENT IS REFRESHINGLY CANDID.
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